

**Alabama Water Pollution
Control Authority**

Component Unit Financial Statements

For The Year Ended September 30, 2010

Alabama Water Pollution Control Authority
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September 30, 2010

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INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

Board of Directors
Alabama Water Pollution Control Authority
Montgomery, Alabama

We have audited the accompanying financial statements of the business-type activities, the major fund, and the remaining fund information of the Alabama Water Pollution Control Authority (the "Authority"), a component unit of the State of Alabama, as of and for the year ended September 30, 2010, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in **Governmental Auditing Standards**, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities, the major fund, and the remaining fund information of the Authority as of September 30, 2010, and the respective changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with **Governmental Auditing Standards**, we have also issued our report dated February 8, 2011 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with **Governmental Auditing Standards** and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Authority. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations" and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, L.L.C.

Certified Public Accountants

February 8, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Alabama Water Pollution Control Authority (the Authority) was established in 1987 to provide a self-perpetuating source of low interest loans for the construction of public wastewater treatment and transport facilities needed to meet water quality standards and provide capacity for future growth. The Authority is operated by The Alabama Department of Environmental Management serving as agent for the Authority. The following discussion provides an overview of the financial position and results of operation for the Authority as of September 30, 2010. For more detailed information, please refer to the financial statements including the Notes to the Financial Statements.

Overview of the Financial Statements

The Authority operates as a Proprietary Fund and presents the following basic financial statements: Statement of Net Assets, Statement of Activity, Statement of Net Assets - Proprietary Fund, Statement of Revenues, Expenses, and Changes in Net Assets - Proprietary Fund, and Statement of Cash Flows – Proprietary Fund. The statements are prepared using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of when cash is received or expended. Investments are reported at fair market value.

The Proprietary Fund statements provide financial information about the Alabama Water Pollution Control Authority which the Alabama Department of Environmental Management operates like a business.

Statement of Net Assets - Proprietary fund – Includes all assets and liabilities of the Authority and provides a snapshot of the financial position of the Authority at the end of the fiscal year. Assets less liabilities results in net assets that are restricted and used in assuring the perpetuation of the Authority. Net assets are comprised primarily of loans receivable that are not obligated to a bond issue, and cash or short term investments pledged to loans that are in the process of closing.

Statement of Changes in Net Assets – Proprietary Fund – Reports all additions and deductions of the Authority for the fiscal year. Additions are primarily comprised of loan and investment income and federal awards. Deductions are mainly bond interest expense. Additions minus deductions provide the change in restricted net assets for the fiscal year. The change in restricted net assets plus the beginning restricted net assets results in the restricted net assets available for the perpetuation of the Authority.

The Notes to the Financial Statements include organizational description, a summary of significant accounting policies, information on cash and investments, loans receivable, payables to municipalities, long term debt, arbitrage, related parties and prior period corrections.

COMPARATIVE SUMMARY STATEMENTS

Statement of Proprietary Net Assets

<i>September 30,</i>	2010	2009	Variance	% increase (decrease)
Assets				
Cash and cash equivalents	\$ 84,026,811	\$ 84,816,551	\$ (789,740)	(1%)
Receivables	513,148,422	539,000,643	(25,852,221)	(5%)
Investments	87,856,555	107,959,783	(20,103,228)	(19%)
Unamortized items	24,101,117	26,976,461	(2,875,344)	(11%)
Capital assets	15,469	33,935	(18,466)	(54%)
Total assets	709,148,374	758,787,373	(49,638,999)	(7%)

Liabilities

Accrued liabilities	5,183,217	4,192,178	991,039	24%
Payable to municipalities	62,111,206	89,137,277	(27,026,071)	(30%)
Bonds payable net	320,307,792	364,403,022	(44,095,230)	(12%)

Total liabilities	387,602,215	457,732,477	(70,130,262)	(15%)
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Net assets restricted	\$ 321,546,159	\$ 301,054,896	\$ 20,491,263	7%
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Statement of Revenues Expenses and Changes in Fund Net Assets

For the year ended September 30,	2010	2009	Variance	% increase (decrease)
Operating revenue	\$ 27,984,544	\$ 28,866,865	\$ (882,321)	(3%)
Operating expense	27,592,048	28,145,097	(553,049)	(2%)
Operating income (expense)	392,496	721,768	(329,272)	(46%)
Non operating revenue	20,098,767	8,179,902	11,918,865	146%
Change in net assets	\$ 20,491,263	\$ 8,901,670	\$ 11,589,593	130%

Summary Statement of Cash Flows

For the year ended September 30,	2010	2009	Variance	% increase (decrease)
Net cash provided by (used in) operating activities	\$ 485,643	\$ 9,160,762	\$ (8,675,119)	(95%)
Net cash used in non- capital and related financing activities	(1,272,431)	(16,942,373)	15,669,942	(92%)
Cash flows from capital and related financing activities	(2,952)	(17,228)	14,276	(83%)
Net increase (decrease) in cash and cash equivalents	\$ (789,740)	\$ (7,798,839)	\$ 7,009,099	(90%)

Financial Highlights

- The Authority closed five new loans totaling \$18,464,718
- Two refunding bond issues were completed. The net effect was the defeasance of \$122,560,000 in old debt and replacing it with \$101,190,000 in new debt while realizing a savings of 5,972,533.
- The Authority received a federal capitalization grant in the amount of \$22,783,000.
- Net assets increased \$20,491,263 mainly due to the utilization of \$29,189,373 in federal funds transferred to loan recipients.

Alabama Water Pollution Control Authority
Statement of Net Assets
September 30, 2010

	Business-type Activities
Assets	
Current assets:	
Cash and cash equivalents - restricted	\$ 84,026,811
Due from ADEM	500,000
Accrued interest receivable on investments - restricted	377,638
Accrued interest on loans receivable	1,884,726
Current portion of loans receivable	42,066,000
Grants and other receivables	217,285
Prepaid rent	166,282
Total current assets	129,238,742
Noncurrent assets:	
Investments - restricted	87,856,555
Loans receivable, less unamortized premium of \$10,636,827	468,102,773
Principal forgiveness	11,710,849
Unamortized bond issue cost	6,357,925
Prepaid rent	5,866,061
Capital assets, net	15,469
Total noncurrent assets	579,909,632
Total assets	709,148,374
Liabilities	
Current liabilities:	
Current portion of revolving loan bonds	27,545,000
Accrued interest payable	1,661,957
Accounts payable	6,582
Escheated bonds	100,000
Due to Alabama Department of Environmental Management (ADEM)	406,276
Total current liabilities	29,719,815
Long-term liabilities:	
Deferred state match revenue	607,892
Accrued arbitrage rebate	2,400,510
Payables to municipalities	62,111,206
Revolving loan bonds payable, less unamortized premiums, discounts, and deferred refunding costs of \$3,302,208	292,762,792
Total long-term liabilities	357,882,400
Total liabilities	387,602,215
Net Assets	
Invested in capital assets, net of related debt	15,469
Restricted for loans and debt service	321,530,690
Total net assets	\$ 321,546,159

See accompanying notes.

Alabama Water Pollution Control Authority
Statement of Activities
For the Year Ended September 30, 2010

Functions/Programs	Expenses	Program Revenues		Net (Expense) and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Business-type Activities
Business-type Activities:				
Water Pollution loans	\$ 37,791,999	\$ 3,413,482	\$ 29,465,292	\$ (4,913,225)
General Revenues				
Investment earnings				25,404,488
Change in net assets				20,491,263
Net Assets - beginning				301,054,896
Net Assets - ending				\$ 321,546,159

See accompanying notes.

Alabama Water Pollution Control Authority
Statement of Net Assets
Proprietary Fund
September 30, 2010

Business-type Activities - Enterprise Funds

	Loan Fund	Loan Fee Fund	Total
Assets			
Current assets:			
Cash and cash equivalents - restricted	\$ 81,491,582	\$ 2,535,229	\$ 84,026,811
Due from ADEM	500,000	-	500,000
Accrued interest receivable on investments - restricted	377,638	-	377,638
Accrued interest on loans receivable	1,884,726	-	1,884,726
Current portion of loans receivable	42,066,000	-	42,066,000
Grants and other receivables	217,285	-	217,285
Prepaid rent	-	166,282	166,282
Total current assets	126,537,231	2,701,511	129,238,742
Noncurrent assets:			
Investments - restricted	87,856,555	-	87,856,555
Loans receivable, less unamortized premium of \$10,636,827	468,102,773	-	468,102,773
Principal forgiveness	11,710,849	-	11,710,849
Unamortized bond issue cost	6,357,925	-	6,357,925
Prepaid rent	-	5,866,061	5,866,061
Capital assets, net	-	15,469	15,469
Total noncurrent assets	574,028,102	5,881,530	579,909,632
Total assets	700,565,333	8,583,041	709,148,374
Liabilities			
Current liabilities:			
Current portion of revolving loan bonds	27,545,000	-	27,545,000
Accrued interest payable	1,661,957	-	1,661,957
Accounts payable	-	6,582	6,582
Escheated bonds	100,000	-	100,000
Due to ADEM	-	406,276	406,276
Total current liabilities	29,306,957	412,858	29,719,815
Long-term liabilities:			
Deferred state match revenue	607,892	-	607,892
Accrued arbitrage rebate	2,400,510	-	2,400,510
Payables to municipalities	62,111,206	-	62,111,206
Revolving loan bonds payable, less unamortized premiums, discounts & deferred refunding costs of \$3,302,208	292,762,792	-	292,762,792
Total long-term liabilities	357,882,400	-	357,882,400
Total liabilities	387,189,357	412,858	387,602,215
Net Assets			
Invested in capital assets, net of related debt	-	15,469	15,469
Restricted for loans and debt service	313,375,976	8,154,714	321,530,690
Total net assets	\$ 313,375,976	\$ 8,170,183	\$ 321,546,159

See accompanying notes.

Alabama Water Pollution Control Authority
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended September 30, 2010

	Business-type Activities - Enterprise Funds		
	Loan Fund	Loan Fee Fund	Total
Operating Revenues			
Investment earnings	\$ 5,552,493	\$ 2,913	\$ 5,555,406
Interest from loans receivable	19,015,656	-	19,015,656
Administrative fees	-	3,413,482	3,413,482
Total operating revenue	24,568,149	3,416,395	27,984,544
Operating Expenses			
Administration expenses	3,805,766	-	3,805,766
Bond interest expense	18,370,342	-	18,370,342
Bond discount amortization	1,370,117	-	1,370,117
Rental expense	-	166,282	166,282
Depreciation	-	21,418	21,418
Employee benefits	-	653,189	653,189
Miscellaneous	-	1,247,093	1,247,093
Office expense	-	147,981	147,981
Repairs and maintenance	-	1,507	1,507
Salaries	-	1,788,413	1,788,413
Travel	-	19,940	19,940
Total operating expenses	23,546,225	4,045,823	27,592,048
Operating income (expense)	1,021,924	(629,428)	392,496
Nonoperating Revenues (Expenses)			
Federal grant revenue	29,189,373	-	29,189,373
Principal forgiveness expense	(10,199,951)	-	(10,199,951)
State grant revenue	275,919	-	275,919
Net increase in the fair value of investments	833,426	-	833,426
Total nonoperating revenues	20,098,767	-	20,098,767
Change in net assets	21,120,691	(629,428)	20,491,263
Net Assets - beginning	292,255,285	8,799,611	301,054,896
Net Assets - ending	\$ 313,375,976	\$ 8,170,183	\$ 321,546,159

See accompanying notes.

Alabama Water Pollution Control Authority
Statement of Cash Flows
Proprietary Fund
For the Year Ended September 30, 2010

Business-type Activities - Enterprise Funds			
	Loan Fund	Loan Fee Fund	Total
Cash Flows from Operating Activities:			
Interest and dividends received on investments	\$ 5,708,313	\$ 2,913	\$ 5,711,226
Interest paid on revolving loan bonds	(17,418,658)	-	(17,418,658)
Bond issuance costs	(2,405,732)	-	(2,405,732)
Premium on bonds issued	1,314,214	-	1,314,214
Receipts of payments from municipalities	39,533,700	-	39,533,700
Payments to employees and vendors	-	(3,471,313)	(3,471,313)
Escheat	-	-	-
Interest received on loans receivable	17,000,744	-	17,000,744
Administration fees	(3,805,766)	3,413,482	(392,284)
Payments to municipalities	(38,396,071)	-	(38,396,071)
Payments to ADEM	(500,000)	(490,183)	(990,183)
Net cash provided by (used in) operating activities	1,030,744	(545,101)	485,643
Cash Flows from Non-capital and Related Financing Activities:			
Grant revenue received	29,655,633	-	29,655,633
Principal forgiveness	(7,094,718)	-	(7,094,718)
Sale of investment securities	20,936,654	-	20,936,654
Revolving loan bond proceeds	101,190,000	-	101,190,000
Principal paid on revolving loan bonds	(145,960,000)	-	(145,960,000)
Net cash used in non-capital and related financing activities	(1,272,431)	-	(1,272,431)
Cash Flows from Capital and Related Financing Activities:			
Purchase of capital assets	-	(2,952)	(2,952)
Net increase (decrease) in cash and cash equivalents	(241,687)	(548,053)	(789,740)
Cash and Cash Equivalents - restricted, beginning of year	81,733,269	3,083,282	84,816,551
Cash and Cash Equivalents - restricted, end of year	\$ 81,491,582	\$ 2,535,229	\$ 84,026,811

See accompanying notes.

Alabama Water Pollution Control Authority
Statement of Cash Flows (Continued)
Proprietary Fund
For the Year Ended September 30, 2010

Business-type Activities - Enterprise Funds			
	Loan Fund	Loan Fee Fund	Total
Reconciliation of Operating Income (Expense) to Net Cash Provided by (Used in) Operating Activities:			
Operating income (expense)	\$ 1,021,924	\$ (629,428)	\$ 392,496
Bond discount amortization	1,370,117	-	1,370,117
Bond issuance cost incurred	(2,405,732)	-	(2,405,732)
Premium on bonds issued	1,314,214	-	1,314,214
Depreciation	-	21,418	21,418
(Increase) decrease in operating assets:			
Due from ADEM	(500,000)	-	(500,000)
Accrued interest receivable on investments - restricted	155,820	-	155,820
Accrued interest receivable on loans receivable	146,826	-	146,826
Loan premium	(2,161,738)	-	(2,161,738)
Loans receivable	28,163,700	-	28,163,700
Prepaid rent	-	166,282	166,282
Increase (decrease) in operating liabilities:			
Accrued interest payable	(527,235)	-	(527,235)
Accrued arbitrage rebate	1,478,919	-	1,478,919
Payables to municipalities	(27,026,071)	-	(27,026,071)
Escheat property	-	-	-
Accounts payable	-	(19,466)	(19,466)
Due to DWFA	-	-	-
Due to ADEM	-	(83,907)	(83,907)
Net cash provided by (used in) operating activities	\$ 1,030,744	\$ (545,101)	\$ 485,643

See accompanying notes.

Alabama Water Pollution Control Authority

Notes To Financial Statements

NOTE 1 – DESCRIPTION OF ORGANIZATION

The Alabama Water Pollution Control Authority (the "Authority"), a component unit of the State of Alabama, was created by the State of Alabama's Legislature in 1989 to issue revolving loan bonds and lend the bond proceeds to eligible municipalities at below market interest rates to pay for the construction of wastewater treatment and collection facilities. The Water Quality Act of 1987 (Clean Water Act) requires the implementation of a state revolving fund (SRF) program to accept the federal capitalization grants and the required 20% state matching funds which are provided by the Federal and State governments. The Alabama Department of Environmental Management (ADEM) is the agency designated by the State of Alabama to administer the revolving loan program.

The Authority does not have any full time employees. Instead, ADEM charges the Authority for time spent on revolving loan program activities by employees of ADEM, and the Authority reimburses ADEM for such costs. The charges include the salaries and benefits of the employees, as well as indirect costs allocated to the Authority based on direct salary costs. Employees charging time to the Authority are covered by the benefits of ADEM.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. In accordance with Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Authority has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board Opinions, issued on or before and subsequent to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect reported amounts of assets and liabilities at the date of the balance sheet and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Restricted Assets

Under each bond indenture, certain funds and bank accounts are required to be established and controlled by a trustee. The accounts of the trust funds are maintained on the cash receipts and disbursements basis and are adjusted for financial statement purposes to reflect accrued receivables and payables.

Additional restricted assets are held by the State of Alabama on behalf of the Authority until the disbursement of the assets to municipalities occurs.

Alabama Water Pollution Control Authority

Notes To Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

Highly liquid investments with a maturity of 90 days or less when acquired are classified as cash equivalents. Included in cash equivalents are money market funds and repurchase agreements held by the State Treasurer. Money market funds are held by counterparty, or by its trust department, but not in the Authority's name. The repurchase agreements held by the State Treasurer are held in the Authority's name.

Investments

Investments are reported at fair value. All investment income, including changes in the fair value of investments, is recognized in the statement of revenues, expenses, and changes in net assets. Repurchase agreements are stated at cost, which approximates market value. The Authority has not adopted a formal written investment policy. However, as disclosed in Note 3, investments and underlying collateral are limited to U.S. Government Securities and AAA rated investments.

Bond Discounts and Issue Costs

Bond discounts on long-term debt are amortized using the interest method over the life of the debt to which it relates. Bond issue costs are capitalized and amortized using the straight-line method over the life of the respective issues.

Loans Receivable, Payables to Municipalities, and Loan Premium

The Authority issues loans to eligible municipalities or their agencies through the purchase of the municipalities' revenue or general obligation bonds or warrants with the loan disbursements being made as the municipalities' construction expenditures are incurred. The loans to municipalities are in excess of the expenditures made by the Authority. The excess of these loans receivables over the payments to municipalities is classified as a loan premium. This loan premium, which allows the Authority to recover certain costs associated with the loan, is amortized into income using the interest method over the life of the loan. The stated interest rates for these loans range from 2.85% to 5.50% and the effective interest rates range from 3.02% to 6.63%. The loans are typically repaid over a twenty-year period. The stated interest rates for these loans include a 0.75% fee charged to municipalities for administrative costs.

Payables to municipalities represent amounts committed by the Authority to fund qualifying projects conducted by the municipalities.

No provision for uncollectible accounts has been made, as all loans are current, and Management believes that all loans will be repaid according to the loan terms.

Prepaid Rent

During the year ended September 30, 2008, the Authority paid \$6,485,000 in prepaid rent to the State of Alabama for the use of newly renovated laboratory facilities. This amount is amortized to rental expense over a period of 39 years, the estimated life of the associated building, or \$166,282, annually. Amortization expense recognized during the year ended September 30, 2010 was \$166,282.

Alabama Water Pollution Control Authority

Notes To Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets are recorded at cost and are being depreciated over their estimated useful lives. The estimated useful life of the Authority's capital assets is three years. Depreciation is calculated using the straight-line method. The Authority maintains a capitalization threshold of five hundred dollars. The cost of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized.

Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority are interest earnings on loans and investments. Due to the nature of the Authority's business, obtaining and making loans, interest which is typically nonoperating is deemed to be operating revenue. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Administrative Fees

The sole source of administrative fees is a 0.75% fee charged to municipalities on the principal amount of the loan made to the municipalities by the Authority, net of bank and trustee fees.

Grant Revenue

Grants received are recognized as nonoperating revenues in the accounting period in which they are earned and become measurable. The federal capitalization grant is awarded in the form of a letter of credit. Funds are drawn from the federal capitalization grant only after the originating expenditure to the municipality has been approved. Since expenditure is the primary factor for determining eligibility, revenue is recognized when the funds are expended.

The State appropriation is awarded to the Authority by the State legislature each year. In accordance with federal law, the appropriation must be at least 20% of the federal capitalization grant. The State's appropriation is not expended upon receipt; therefore, the State's appropriation is deferred upon receipt and recognized as revenue as a constant percentage of each federal grant draw. Such percentage is dependent on the actual appropriation (see Note 6).

Interfund Transfers

The Authority has the ability to transfer and receive funds from the Drinking Water State Revolving Fund. There were no interfund transfers during 2010.

Subsequent Events

The Authority has evaluated subsequent events through February 8, 2011, the date the financial statements were available to be issued.

Alabama Water Pollution Control Authority

Notes To Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budget Information

Under the Alabama Constitution, money may only be drawn from the Treasury by a legal appropriation. However, the Authority operates under a continuous appropriation because the funding of the matching funds approved by the voters contains its own appropriation authority. Therefore, the Authority's operations are not included in the State's annual budget.

Concentration of Credit Risk

All of the loans to municipalities represent receivables from municipalities located in the State of Alabama.

NOTE 3 – CASH AND INVESTMENTS

Deposits

As of September 30, 2010, cash consisted of non-interest bearing deposits held by the State Treasurer and financial institutions in the name of the Authority.

The Authority's deposits were covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held with the State Treasurer's office in the name of the State Treasurer under the Security for Alabama Funds Enhancement (SAFE) Act. Under the SAFE Act, financial institutions holding public deposits in excess of the amounts insured by FDIC must pledge collateral to a collateral pool in the name of the State Treasurer. The State Treasurer is responsible for monitoring compliance with the collateralization and reporting requirements of the SAFE Act. If any member financial institution fails, the entire collateral pool becomes available to satisfy claims of governmental entities. If the value of the pool's collateral were inadequate to cover the loss, additional amounts would be assessed on a pro rata basis to the members of the pool. Funds deposited in accordance with the requirements of the SAFE Act are considered fully secured.

Investments

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The fair value of fixed-maturity investments fluctuates in response to changes in market interest rates. Increases in prevailing interest rates generally translate into decreases in the fair value of those instruments. The fair value of interest sensitive instruments may also be affected by the creditworthiness of the issuer, prepayment options, relative values of alternative investments, and other general market conditions. Certain fixed maturity investments have call provisions that could result in shorter maturity periods. However, the Authority's intent is to hold all securities to maturity, and as such, fixed maturity investments are classified as held to maturity. The Authority has no stated policy on interest rate risk.

Alabama Water Pollution Control Authority

Notes To Financial Statements

NOTE 3 – CASH AND INVESTMENTS (Continued)

As of September 30, 2010, the Authority had the following investment holdings and maturities:

		Investment Maturities		
	Market	Less than 3 years	3-6 years	Greater than 6 years
Investments:				
U.S. Treasury Strips	\$ 7,881,200	\$ 7,054,455	\$ 327,526	\$ 499,219
Repurchase Agreements	2,515,000	-	-	2,515,000
Guaranteed Investment Contracts	42,369,511	-	15,771,531	26,597,980
U.S. Treasury SLGs	29,015,095	13,293,540	4,635,345	11,086,210
U.S. Treasury Bonds/Notes	6,075,749	-	-	6,075,749
Total investments	87,856,555	\$ 20,347,995	\$ 20,734,402	\$ 46,774,158
Cash equivalents:				
Repurchase agreements held by State Treasurer	56,184,683	\$ 56,184,683	\$ -	\$ -
Money Market Funds	27,842,128	N/A	N/A	N/A
Total cash equivalents	84,026,811	\$ 56,184,683	\$ -	\$ -
Total holdings	\$ 171,883,366			

Custodial Credit Risk – Custodial credit risk is the risk that in the event of the failure of the counterparty to a transaction, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority has U.S. Government securities (bonds, notes, strips, and repurchase agreements) totaling \$45,487,044 held in trust by either the Bank of New York or U.S. Bank in a fiduciary capacity. These securities are bond reserve funds and are held under a trust agreement between the Authority and the trustee bank for the benefit of the bondholder and are not deemed to have custodial credit risk. The securities are approved by bond insurers and are held in the name of the Trustee for the bond issue for the benefit of bondholder. The Authority has custodial credit risk relative to repurchase agreements through the State Treasury whose policy requires that the underlying securities held in the counterparty's safekeeping department be in the name of the Authority. The Authority has no policy on custodial credit risk.

Investments Exposed to Custodial Credit Risk

Repurchase agreements through State Treasurer \$ 56,184,683

Concentration of Credit Risk – Concentration of credit risk is defined as investing 5% or more of total investments in any single issuer. The Authority has no stated policy for concentration of credit risk. As of September 30, 2010, the Authority entered into Guaranteed Investment Contracts with the following issuers that comprised 5% or more of the total holdings:

Issuer	Investment Type	Fair Value	Percentage of Total Holdings
AIG	Guaranteed Investment Contracts	\$ 29,259,189	16.97%
Wachovia Bank NA	Guaranteed Investment Contracts	8,645,322	5.02%

Alabama Water Pollution Control Authority

Notes To Financial Statements

NOTE 3 – CASH AND INVESTMENTS (Continued)

Credit Risk – Credit Risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Nationally recognized statistical rating organizations provide ratings of debt securities' quality based on a variety of factors, such as financial condition of the issuers, which provide investors with some idea of the issuer's ability to meet its obligations. The bond indenture agreements authorize the Authority to invest in "eligible investments." "Eligible investments" are defined as (a) any debt securities that are direct, general obligations of the United States of America; (b) any debt securities where the payment of the principal and of interest on which is unconditionally guaranteed by the United States of America; and (c) repurchase agreements collateralized by securities of the type described in the preceding clauses (a) and (b) above with any commercial bank, of such broker/dealer subject to the Securities Investors' Protection Corporation jurisdiction or any commercial bank if such broker/dealer or bank has an uninsured, unsecured, and unguaranteed obligation rated "Prime-1" or "A-3" or better by Moody's Investors Service, Inc. and "A-1" or "A-" or better by Standard & Poor's Corporation. All of the investments and cash equivalents held by the Authority for the year ended September 30, 2010 are collateralized by U.S. Government securities rated AAA by Moody's Investor Services.

The ratings of total holdings are as follows at September 30, 2010:

Moody's Ratings	Fair Value	Fair Value as a Percent of Total Holdings Value
Exempt from disclosure	\$ 42,972,044	25.00%
AAA	27,842,128	16.20%
Not rated	101,069,194	58.80%
	<u>\$ 171,883,366</u>	<u>100.00%</u>

Investment holdings that are exempt from disclosure consist of U.S. Treasury strips, bonds, and SLGs. Investment holdings that are not rated consist of repurchase agreements and guaranteed investment contracts. Repurchase agreements are not rated by Moody's Investors Service. The underlying collateral for the repurchase agreements was rated AAA by Moody's Investors Service at September 30, 2010.

NOTE 4 – LOANS RECEIVABLE

Loans receivable at September 30, 2010, as discussed below, are as follows:

Completed projects	\$ 388,125,600
Projects in progress	132,680,000
Loans receivable	520,805,600
Less:	
Current portion loans receivable	42,066,000
Unamortized premium	10,636,827
Loans receivable, net	<u>\$ 468,102,773</u>

Alabama Water Pollution Control Authority

Notes To Financial Statements

NOTE 4 – LOANS RECEIVABLE (Continued)

Loans mature at various intervals. The schedule of principal payments on loans maturing in subsequent years follows:

2011	\$ 42,066,000
2012	43,763,500
2013	44,396,500
2014	40,409,600
2015 and thereafter	350,170,000
	<u>\$ 520,805,600</u>

As of September 30, 2010, the Authority had loans outstanding to ten agencies that, in the aggregate, exceed \$156 million. The outstanding balances of these loans represent approximately 30% of the total loans receivable, as follows:

Loan Recipient	Outstanding Balance
Tuscaloosa Sewer Improvements	\$ 25,175,000
Mobile Sewer Rehabilitation	19,725,000
Jefferson Co. WWTP's, Interceptors & Sewer Rehab	18,730,000
Athens Wastewater Treatment Plant Improvements	14,765,000
Tuscaloosa WWTP Upgrade, Outfall & Collectors	13,690,000
Huntsville I&I Rehabilitation and Sanitary Sewer Improvements	13,575,000
Madison Wastewater Treatment Plant & Interceptors	13,315,000
Florence WWTP Upgrade & Interceptor	12,920,000
Florence WWTP Upgrade & Inter. (Supplemental A)	12,460,000
Pell City Sanitary Sewer System Upgrade and Rehabilitation	11,960,000
Total	<u>\$ 156,315,000</u>

NOTE 5 – CAPITAL ASSETS, NET

Capital assets consist of the following depreciable assets:

	Balance 10/1/09	Additions	Deletions	Balance 9/30/10
Data processing equipment	\$ 416,946	\$ 2,952	\$ 115,597	\$ 304,301
Scientific and technical equipment	908,550	-	510	908,040
Communication equipment	168,708	-	-	168,708
Other equipment	118,505	-	20,670	97,835
	1,612,709	2,952	136,777	1,478,884
Less: Accumulated depreciation	1,578,774	21,418	136,777	1,463,415
Total capital assets, net	<u>\$ 33,935</u>	<u>\$ (18,466)</u>	<u>\$ -</u>	<u>\$ 15,469</u>

Alabama Water Pollution Control Authority

Notes To Financial Statements

NOTE 6 – APPROPRIATIONS

During the year ended September 30, 2010, the U. S. Environmental Protection Agency (EPA) awarded ADEM capitalization funds under its annual grant agreement in the amount of \$22,783,000. During the year ended September 30, 2010, the State of Alabama appropriated \$418,647 from the State General Fund to the Authority.

The federal capitalizing grants require a state appropriation of at least 20% of the awarded federal capitalization grant. In the absence of such an appropriation, the EPA allows the required match to be satisfied by using a portion of the proceeds from the revolving fund loan bonds. The Authority has chosen to use bond proceeds as the required match for the capitalizing grants. The Authority has also recognized as income only the percentage of State match actually received in relation to the federal grant drawn.

The amount of cumulative unreceived federal capitalization grants was \$43,956,971 at September 30, 2010. The Authority will apply for a federal capitalization grant in 2010. Any grants in 2010 and subsequent years are subject to approval on a yearly basis.

The following summarizes the capitalization grant awarded, amounts drawn on each grant, and balances available for future loans as of September 30, 2010:

Year	Grant Amount	Draws Prior to 2010	2010 Draws	Total Draws	Amount Available for Future Draws
2008	\$ 7,585,900	\$ 7,585,630	\$ 270	\$ 7,585,900	\$ -
2009	7,585,900	-	4,499,690	4,499,690	3,086,210
2009-ARRA	43,821,600	-	25,733,839	25,733,839	18,087,761
2010	22,783,000	-	-	-	22,783,000
	<u>\$ 81,776,400</u>	<u>\$ 7,585,630</u>	<u>30,233,799</u>	<u>\$ 37,819,429</u>	<u>\$ 43,956,971</u>

Less:

Administrative and set-aside expenses	(1,001,373)
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Total 2010 draws	<u>\$ 29,232,426</u>
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NOTE 7 – PAYABLES TO MUNICIPALITIES

As of September 30, 2010, the Authority had \$62,111,206 in payables to municipalities. These payables represent approved loans on projects in progress at year end. Loan funds are advanced as work is completed on each project.

Alabama Water Pollution Control Authority

Notes To Financial Statements

NOTE 8 – LONG-TERM DEBT

On October 1, 1997, the Authority issued Refunding Series 1997 Revolving Loan Bonds totaling \$59,040,000. The Refunding Series 1997 Bonds include:

\$59,040,000 serial bonds commencing August 15, 1999, and due August 15, 2015, which bear interest at rates ranging from 4.25% to 4.75%.

On January 8, 1998, the Authority issued Series 1998A Revolving Loan Bonds totaling \$58,545,000. The Series 1998A Bonds include:

\$46,890,000 serial bonds commencing August 15, 2000, and due August 15, 2018, which bear interest at 4.75%.

\$11,655,000 term bonds due August 15, 2021, which bear interest at 4.75%.

As of September 30, 2010, the Series 1998A bonds were fully paid.

On December 1, 1998, the Authority issued Series 1998B Revolving Loan Bonds totaling \$61,660,000. The Series 1998B Bonds include:

\$39,225,000 serial bonds commencing February 15, 1999, and due August 15, 2015, which bear interest at rates ranging from 4.25% to 4.75%.

\$10,560,000 term bonds due August 15, 2018, which bear interest at 4.75%.

\$11,845,000 term bonds due August 15, 2012, which bear interest at 5.00%.

As of September 30, 2010, the Series 1998B bonds were fully paid.

On December 1, 1999, the Authority issued Series 1999 Revolving Loan Bonds totaling \$60,430,000. The Series 1999 Bonds include:

\$20,365,000 serial bonds commencing February 15, 2000, and due August 15, 2010, which bear interest at rates ranging from 4.38% to 5.30%.

\$5,405,000 term bonds due August 15, 2012, which bear interest at 5.45%.

\$5,835,000 term bonds due August 15, 2014, which bear interest at 5.65%.

\$16,740,000 term bonds due August 15, 2019, which bear interest at 5.92%.

\$12,085,000 term bonds due August 15, 2023, which bear interest at 6.03%.

As of September 30, 2010, the Series 1999 bonds were fully paid.

Alabama Water Pollution Control Authority

Notes To Financial Statements

NOTE 8 – LONG-TERM DEBT (Continued)

On December 1, 2000, the Authority issued Series 2000 Revolving Loan Bonds totaling \$61,795,000. The Series 2000 Bonds include:

\$29,325,000 serial bonds commencing February 15, 2001, and due August 15, 2014, which bear interest at rates ranging from 4.30% to 5.50%.

\$13,020,000 term bonds due August 15, 2018, which bear interest at 5.51%.

\$7,830,000 term bonds due August 15, 2020, which bear interest at 5.59%.

\$11,620,000 term bonds due August 15, 2023, which bear interest at 5.65%.

On January 15, 2002, the Authority issued Series 2002A Revolving Loan Bonds totaling \$32,555,000. The Series 2002A Bonds include:

\$20,450,000 serial bonds commencing February 15, 2002, and due August 15, 2018, which bear interest at rates ranging from 3.00% to 5.00%.

\$5,980,000 term bonds due August 15, 2021, which bear interest at 5.05%.

\$6,125,000 term bonds due August 15, 2024, which bear interest at 5.10%.

On February 14, 2002, the Authority issued Series 2002A Revolving Loan Bonds totaling \$58,425,000. The Series 2002B Bonds include:

\$58,425,000 serial bonds commencing August 15, 2002, and due August 15, 2014, which bear interest rates ranging from 3.00% to 5.40%.

On January 1, 2003, the Authority issued Series 2003A Revolving Loan Bonds totaling \$30,985,000. The Series 2003A Bonds include:

\$18,250,000 serial bonds commencing August 15, 2006, and due August 15, 2023, which bear interest at rates ranging from 3.00% to 5.00%.

\$12,735,000 term bonds due August 15, 2026, which bear interest at 5.00%.

On January 1, 2003, the Authority issued Refunding Series 2003B Revolving Loan Bonds totaling \$52,650,000. The Series 2003B Bonds include:

\$52,650,000 serial bonds commencing February 15, 2004, and due February 15, 2016, which bear interest rates ranging from 3.00% to 4.38%.

On August 1, 2003, the Authority issued Refunding Series 2003C Revolving Loan Bonds totaling \$11,385,000. The Series 2003C Bonds include:

\$11,385,000 serial bonds commencing February 15, 2004, and due August 15, 2015, which bear interest rates ranging from 2.50% to 4.25%.

Alabama Water Pollution Control Authority

Notes To Financial Statements

NOTE 8 – LONG-TERM DEBT (Continued)

On April 1, 2004, the Authority issued Refunding Series 2004A Revolving Loan Bonds totaling \$34,580,000. The Series 2004A Bonds include:

\$34,580,000 serial bonds commencing August 15, 2005, and due August 15, 2016, which bear interest rates ranging from 2.00% to 4.00%.

On February 1, 2008, the Authority issued Refunding Series 2008A Revolving Loan Bonds totaling \$44,680,000. The Series 2008A Bonds include:

\$44,680,000 serial bonds commencing August 15, 2008, and due August 15, 2019, which bear interest rates ranging from 3.00% to 4.00%.

On August 15, 2010, the Authority issued Refunding Series 2010A Revolving Loan Bonds totaling \$36,440,000. The Series 2010A Bonds include:

\$36,440,000 serial bonds commencing August 15, 2011, and due August 15, 2023, which bear interest rates ranging from 3.00% to 4.00%.

On August 15, 2010, the Authority issued Refunding Series 2010B Revolving Loan Bonds totaling \$64,750,000. The Series 2010B Bonds include:

\$64,750,000 serial bonds commencing August 15, 2012, and due August 15, 2021, which bear interest rates ranging from 2.00% to 3.00%.

All bond issues contain provisions in which the Authority may, at its option and without premium, redeem amounts equal to amounts on deposit in the Capitalized Interest Account and the Bond Proceeds Account, generally within three years of the second payment date.

All bonds are insured by a municipal bond insurance policy for the total of the principal and interest. The bond insurer (AMBAC Indemnity) will not insure payment on acceleration or the payment of any redemption, prepayment, acceleration premium or any risk other than nonpayment.

Summary of changes in long-term debt for 2010:

	Balance 10/1/09	Additions	Reductions	Balance 9/30/10
Revolving fund loan bonds	\$ 368,380,000	\$ 101,190,000	\$ 145,960,000	\$ 323,610,000
Add: Unamortized premiums	1,229,113	1,792,979	370,455	2,651,637
Less: Unamortized deferred refunding costs	5,206,091	1,826,254	1,078,500	5,953,845
Total	\$ 364,403,022	\$ 101,156,725	\$ 145,251,955	\$ 320,307,792

Alabama Water Pollution Control Authority

Notes To Financial Statements

NOTE 8 – LONG-TERM DEBT (Continued)

Long-term debt at September 30, 2010 is payable as follows:

	Principal	Interest	Total
2011	\$ 27,545,000	\$ 13,093,417	\$ 40,638,417
2012	32,155,000	11,813,831	43,968,831
2013	39,120,000	10,419,203	49,539,203
2014	33,590,000	9,027,602	42,617,602
2015	26,390,000	7,727,936	34,117,936
2016-2020	103,900,000	25,598,661	129,498,661
2021-2025	57,815,000	7,624,048	65,439,048
2026	3,095,000	154,750	3,249,750
	323,610,000	\$ 85,459,448	\$ 409,069,448
Plus:			
Unamortized premium	2,651,637		
Less:			
Unamortized deferred refunding cost	5,953,845		
Current portion	27,545,000		
Total long-term debt	\$ 292,762,792		

The Authority issued the 1997 Refunding Series revolving loan bonds for the purpose of refunding the Series 1989 Bonds, the Series 1990A bonds, and the Series 1990B, which had an aggregate principal balance of \$57,470,000 on October 1, 1997, the date of the refunding. The advance is being amortized, on a straight-line basis, through 2012. The refunding resulted in an accounting loss of approximately \$6,600,000, which has been capitalized and is being amortized, on a straight-line basis, through 2014. As of September 30, 2010, the unamortized deferred refunding costs totaled \$680,555 for the Series 1989, Series 1990A, and 1990B bonds.

The Authority issued the 2002B Refunding Series revolving loan bonds for the purpose of refunding the Series 1991 Bonds that had an aggregate principal balance of \$59,770,000 on February 1, 2002. The refunding resulted in an accounting loss of approximately \$2,200,000 that has been capitalized and is being amortized, on a straight-line basis, through 2014. Although the refunding resulted in an accounting loss, the Authority reduced its aggregate debt service by approximately \$8.3 million over the next 12 years and obtained an economic gain (the difference between the present values of the old and new debt service requirements) of approximately \$1.9 million. As of September 30, 2010, the unamortized deferred refunding cost totaled \$609,760 for the Series 1991 Bonds.

The Authority issued the 2003B Refunding Series revolving loan bonds for the purpose of refunding the Series 1992A Bonds that had an aggregate principal balance of \$54,210,000 on January 1, 2003. The refunding resulted in an accounting loss of approximately \$2,000,000 that has been capitalized and is being amortized, on a straight-line basis, through 2016. Although the refunding resulted in an accounting loss, the Authority reduced its aggregate debt service by approximately \$1 million. As of September 30, 2010, the unamortized deferred refunding costs totaled \$807,694 for the Series 1992A Bonds.

Alabama Water Pollution Control Authority

Notes To Financial Statements

NOTE 8 – LONG-TERM DEBT (Continued)

The Authority issued the 2003C Refunding Series revolving loan bonds for the purpose of refunding the Series 1992B Bonds that had an aggregate principal balance of \$11,695,000 on August 1, 2003. The refunding resulted in an accounting loss of approximately \$253,000 that has been capitalized and is being amortized, on a straight-line basis, through 2015. Although the refunding resulted in an accounting loss, the Authority reduced its aggregate debt service by approximately \$2.5 million over the next 12 years and obtained an economic gain (the difference between the present values of the old and new debt service requirements) of approximately \$50,000. As of September 30, 2010, the unamortized deferred refunding costs totaled \$103,662 for the Series 1992B Bonds.

The Authority issued the 2004A Refunding Series revolving loan bonds for the purpose of refunding the Series 1993 and 1994 Bonds. The 1993 Bonds were refunded on August 15, 2004 with an aggregate principal balance of \$46,385,000 and the 1994 Bonds were refunded on August 15, 2005 with an aggregate principal balance of \$36,720,000. The refunding of the 1993 and 1994 Bonds resulted in an accounting loss of approximately \$917,000 and \$931,000, respectively, that has been capitalized and is being amortized, on a straight-line basis, through 2016. Although the refunding resulted in an accounting loss, the Authority reduced its aggregate debt service of the 1993 and 1994 Series Bonds by approximately \$5.3 million over the next 13 years and obtained an economic gain (the difference between the present values of the old and new debt service requirements) of approximately \$2 million. As of September 30, 2010, the unamortized deferred refunding cost totaled \$1,015,886 for the Series 1993 and 1994 Bonds.

The Authority issued the 2008A Refunding Series revolving loan bonds for the purpose of refunding the Series 1996A and 1996B Bonds that had aggregate principal balances of \$27,690,000 and \$30,180,000 on February 15, 2008, respectively. The refunding resulted in accounting loss of approximately \$489,102 and \$685,136, respectively, that has been capitalized and is being amortized on a straight-line basis, through 2020. Although the refunding resulted in an accounting loss, the Authority reduced its aggregate debt service by approximately \$21 million over the next 13 years and obtained an economic gain (the difference between the present values of the old and new debt service requirements) of approximately \$10.4 million. As of September 30, 2010, the unamortized deferred refunding costs totaled \$910,034 for the Series 1996A and 1996B Bonds.

The Authority issued the 2010A Refunding Series revolving loan bonds for the purpose of refunding the Series 1999 Bonds that had an aggregate principal balance of \$42,615,000 on August 15, 2010. The refunding resulted in accounting loss of approximately \$795,521 that has been capitalized and is being amortized, on a straight-line basis, through 2023. Although the refunding resulted in an accounting loss, the Authority reduced its aggregate debt service by approximately \$16.6 million over the next 13 years and obtained an economic gain (the difference between the present values of the old and new debt service requirements) of approximately \$7.4 million. As of September 30, 2010, the unamortized deferred refunding costs totaled \$795,521 for the Series 1999 Bonds.

The Authority issued the 2010B Refunding Series revolving loan bonds for the purpose of refunding the Series 1998A and 1998B Bonds that had aggregate principal balances of \$39,535,000 and \$40,410,000 on August 15, 2010, respectively. The refunding resulted in accounting loss of approximately \$492,910 and \$537,824, respectively, that has been capitalized and is being amortized on a straight-line basis, through 2020. Although the refunding resulted in an accounting loss, the Authority reduced its aggregate debt service by approximately \$23 million over the next 11

Alabama Water Pollution Control Authority

Notes To Financial Statements

NOTE 8 – LONG-TERM DEBT (Continued)

years and obtained an economic gain (the difference between the present values of the old and new debt service requirements) of approximately \$11.7 million. As of September 30, 2010, the unamortized deferred refunding costs totaled \$1,030,733 for the Series 1998A and 1998B Bonds.

NOTE 9 – ARBITRAGE REBATE CALCULATIONS

In accordance with Internal Revenue Code Section 148, and related regulations as the issuer of tax-exempt debt, the Authority has calculated the amount of rebate due to the Internal Revenue Service. The liability is \$2,400,510 at September 30, 2010.

NOTE 10 – RELATED PARTIES

ADEM acts as an agent for the Authority and is authorized to administer the revolving loan fund program in accordance with applicable federal and state laws. The director of ADEM is the vice president of the Authority. ADEM receives a portion of the federal capitalization grants as reimbursement for administrative costs.

NOTE 11 – PRINCIPAL FORGIVENESS

During the year ended September 30, 2009, the EPA awarded ADEM capitalization funds under the American Recovery and Reinvestment Act of 2009 (ARRA) in the amount of \$43,821,600. This grant provided for the recipient (ADEM) to use at least 50% of the funds provided by the grant to provide additional subsidization in the form of principal forgiveness, negative interest rate loans, or grants. Therefore, principal forgiveness in the aggregate amount of \$21,910,800 was allocated amongst qualifying projects for the municipalities. This amount was initially shown as a receivable on the statement of net assets and was included in the total amount payable to municipalities. Principal forgiveness is stated separately from the associated loans receivable as it is not required to be repaid by the municipalities. As the work is completed on these projects and the loan funds are advanced to the municipalities, a percentage of the total principal forgiveness amount is expensed in relation to the total amount paid to the respective municipalities. Principal forgiveness expense recognized during the year ended September 30, 2010 totaled \$10,199,951, leaving a remaining balance of \$11,710,849 capitalized as principal forgiveness on the statement of net assets as of September 30, 2010.

SUPPLEMENTARY INFORMATION

**Alabama Water Pollution Control Authority
Schedule of Expenditures of Federal Awards
September 30, 2010**

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Grantor's Number	Federal Expenditures
Environmental Protection Agency			
Passed through the Alabama Department of Environmental Management			
Capitalization grants for state revolving funds	66.458	CS010001-08	\$ 271
Capitalization grants for state revolving funds	66.458	CS010001-09	3,766,551
ARRA - Capitalization grants for state revolving funds	66.458	2W954279-09	25,422,551
Total Environmental Protection Agency			29,189,373
Total federal financial assistance			\$ 29,189,373

**Alabama Water Pollution Control Authority
Notes To Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2010**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and presentation of the Single Audit Report of the Alabama Water Pollution Control Authority (the "Authority") have been designed to conform to generally accepted accounting principles as applicable to governmental units, including the reporting and compliance requirements of the Audits of States, Local Governments, and Non-Profit Organizations and Office of Management and Budget Circular A-133, Compliance Supplement (A-133).

Reporting Entity – The Authority consists of the Loan Fund and the Loan Fee Fund, both of which are Enterprise Funds. The Authority included a schedule of federal financial assistance in the Single Audit section.

Basis of Accounting – Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The modified accrual basis of accounting is followed in the Schedule of Expenditures of Federal Awards. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related liability is incurred. In applying the susceptible-to-accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of such revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the Authority; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and substantially irrevocable; i.e., revocable only for failure to comply with prescribed compliance requirements, such as with equal employment opportunity. These resources are reflected as revenues at the time of receipt or earlier if they meet the availability criteria.

NOTE 2 – CONTINGENCIES

Grant monies received and disbursed by the Authority are for specific purposes and are subject to review by the grantor agencies. Such audits may result in requests for reimbursement due to disallowed expenditures. Based upon prior experience, the Authority does not believe that such disallowance, if any, would have a material effect on the financial position of the Authority. As of February 8, 2010, there were no material questioned or disallowed costs as a result of grant audits in process or completed.

COMPLIANCE SECTION



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Alabama Water Pollution Control Authority
Montgomery, Alabama

We have audited the accompanying financial statements of the business-type activities, the major fund, and the remaining fund information of the Alabama Water Pollution Control Authority (the "Authority"), as of and for the year ended September 30, 2010, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated February 8, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under **Government Auditing Standards**.

We noted certain matters involving internal control over financial reporting which we have reported to management in a separate letter dated February 8, 2011.

This report is intended solely for the information and use of management, the board members and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, L.L.C.

Certified Public Accountants

February 8, 2011

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133**

Board of Directors
Alabama Water Pollution Control Authority
Montgomery, Alabama

Compliance

We have audited the compliance of Alabama Water Pollution Control Authority (the "Authority") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended September 30, 2010. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States, and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations". Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2010.

Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the board members, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, L.L.C.

Certified Public Accountants

February 8, 2011

**Alabama Water Pollution Control Authority
Schedule of Findings and Questioned Costs
For The Year Ended September 30, 2010**

SECTION I - Summary of Auditors' Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified _____ yes X no
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Reportable condition(s) identified that are not considered to be material weakness(es)? _____ yes X none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? _____ yes X no

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
66.458	Capitalization Grants for Clean Water State Revolving Funds

Dollar threshold used to distinguish between type A and type B programs? \$ 875,681

Auditee qualified as low-risk auditee? X yes _____ no

SECTION II – Financial Statements Findings

No matters were reported.

SECTION III – Federal Award Findings and Questioned Costs

No matters were reported.